

IOWA FINANCE
AUTHORITY

February 14, 2012

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street SW, Room 10276
Washington, DC 20410-0500

Re: Comments to Proposed Rules to 24 CFR Parts 91 and 92

Docket No. FR-5563-P-01

RIN 2501-ac94

HOME Investment Partnerships Program: Improving Performance and Accountability; and
Updating Property Standards

To Whom It May Concern:

Thank you for the opportunity to comment on the proposed rule changes to 24 CFR Parts 91 and 92. I am responding on behalf of the Iowa Finance Authority, which serves as the agency who administers the HOME program on behalf of the State of Iowa.

Under Section 92.2 Definitions:

Commitment: We support the clarification that an executed legally binding written agreement with a State recipient or subrecipient to provide down payment assistance is considered a commitment. Please modify the IDIS system so that this is shown as a commitment. Currently, we cannot commit funds until all addresses for which the down payment assistance applies are identified. This puts our agency in jeopardy of missing the 24-month commitment deadline.

Community Housing Development Organization: We support the requirement that a CHDO have demonstrated capacity to develop housing. Please provide further clarification or explanation on the phrases "develop housing" or "development experience."

Low-income families and very-low income families: While we support the exclusion of students from qualifying as low-income families, please provide guidance on how the rule change will apply to existing student households that are currently renting HOME-assisted units. A period for transition would be appreciated.

Subrecipient: We appreciate the clarifications made to this definition.

Under Section 92.209(c):

We strongly support allowing a TBRA program to target special needs populations and persons with disabilities. Our experience, running a state-based rent subsidy program for Medicaid waiver beneficiaries, has shown a high unmet demand for affordable housing for homeless, disabled, and other special needs populations. This is a significant way that states and localities can support community-based care options. We also support the premise that tenants should not be required to accept services in order to receive rent subsidy.

Under Section 92.210:

We appreciate your recognition that there are troubled properties for a number of reasons. While we applaud your willingness to allow a reduction in the number of HOME-assisted units to the minimum amount of HOME-required affordable units, we believe that the determination to modify the number of affordable units should be a determination of the participating jurisdiction. The PJ should document in the project file why the modification is made, and the financial feasibility analysis should support the modification. In IFA's case, the previous state agency that administered the program often chose to require more HOME restricted units that would be required under the regulations. In reviewing the financial feasibility of a project, we find that by reducing the number of HOME units the project can sometimes survive. With all due respect, by the time that HUD headquarters makes a decision, the property could be in foreclosure. The reality is that if a project has more HOME units than the regulations require, then HUD has already gained benefits that the HOME laws did not anticipate. This provision will discourage PJs from ever approving more than the minimum number of HOME units.

Under Section 92.214(b)(1)(i):

We fully support the exception to the prohibition on fees to allow the cost of ongoing monitoring of HOME-assisted rental projects. Please allow the participating jurisdiction to charge a monitoring fee for existing HOME-assisted projects (those funded prior to the effective date of the final rule).

Under Section 92.251:

We support the use of the Uniform Physical Condition Standards. This is the same standard that applies to Low Income Housing Tax Credit projects, and it is logical to use the same standard for each. Property managers and compliance inspectors both have more experience with the UPCS.

We would encourage HUD to provide additional guidance to PJs on what characteristics should be considered when establishing the frequency of inspections. We are assuming that HUD would want the PJ to establish policies that address a risk-based system of focusing inspections on projects most likely to have compliance issues, and because of HUD's broad experience, it would be helpful if you identified categories for consideration.

Under Section 92.254(2)(iii):

We strongly oppose the requirement of 95 percent of the median area purchase price as the primary mechanism for establishing the "by county" reasonable housing valuation. In Iowa,

eight counties have 95 percent of median values below \$40,000. In fact, in two counties the 95 percent of median are \$25,175 and \$22,800. All of these counties are non-MSA. Of the 14 counties with 95 percent of median values above \$100,000, only three of the counties are non-MSA. Reliance on this standard provides a significant hardship for rural counties in their efforts to assist first time homebuyers. The low median value also speaks to the substandard quality of housing in these counties, and to the relative low volume of home sales. Purchase of a substandard quality home does not benefit a first time homebuyer, and the cost of bringing the home to standard may far exceed the initial sales price of the home. Instead it makes more sense to purchase a home that is over the 95 percent of median value, but has been maintained to a higher standard. A possible alternative could be that if the median area sales price is less than \$60,000, that the reasonable housing valuation standard be 130% of the median sales price, or some combination thereof.

Section 92.300(4)(i):

We are especially troubled about the proposal if a limited partnership agreement permits the CHDO to be removed as general partner or sole managing member, the applicable agreement must be for cause and that the CHDO must be replaced with another CHDO. While we agree that the removal must be for cause, we completely disagree with the requirement for replacement by another CHDO. This is problematic for a number of reasons. First of all, the CHDO set-aside funds often go towards a project funded with low income housing tax credits. Affordable housing benefits the most when the credits are sold for a higher amount (more affordable housing is constructed per credit dollar). This type of restriction will make the credits less attractive to purchase, therefore the project will receive lower price per credit dollar. For example, credits may be purchased for \$.90 per dollar/credit on a standard project, but \$.75 for a CHDO-sponsored project. While reduced credit pricing is a risk, the greater risk is whether an investor would be willing to purchase the credits AT ANY PRICE.

Iowa has had two failures of major non-profit organizations, both CHDOs, in the past five years. Both CHDOs had multiple tax-credit and HOME-funded properties – one CHDO in Cedar Rapids, IA and the other in Davenport, IA. The state and local officials, and syndicators, scrambled over a period of weeks and months to find replacement General Partners for multiple properties. In both cases, strong local non-profit organizations stepped up to the plate in incredibly difficult situations to take over the management (and eventual ownership) of these properties. In the interim, syndicators were able to replace the nonprofit with an affiliate of the syndicator while we worked through the logistics of keeping these properties functioning. Only this year did one of the two non-profits become a CHDO.

There are other reasons why a CHDO might not be available to take over a property as the General Partner. The property may not be located in a geographic area of the state that makes sense for the CHDO to expand business into. The CHDOs available may not have development or management experience in the type of housing that a GP has been removed from. Finally, there may just not be a CHDO available that is willing to take on a GP transition. To summarize, this requirement is completely unworkable.

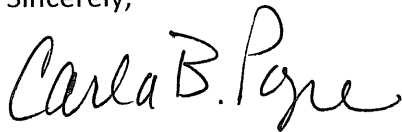
The other option for spending the CHDO funds is for a small rental project (without LIHTC) or for homebuilding. Our experience is that given today's housing market, homebuilding is incredibly risky, especially given HUD's preference that the house be sold within 6 months or be rented. And a small rental project is often difficult to cash flow, making underwriting the deal a risky proposition. Often, small rental projects wind up on our Agency's watch list because any type of extended vacancy causes cash flow issues. This provision makes it very difficult to meet the 15 percent set-aside of CHDO funds.

A possible alternative is to not allow the replacement of the CHDO during the development phase, but to allow the replacement of the CHDO with cause following the construction completion date (also referred to as the "placed-in-service" date). We have found this to be workable because while we can generally predict the success of a developer in the short term, it is incredibly difficult to predict the success of an organization over a 15 to 30 year period that the General Partner owns a property.

Conclusion

While there is much to think about in the implementation of the proposed rules, we think that HUD has made a number of good changes -- especially as it relates to assuring financial feasibility of projects -- there are a few proposed changes that are problematic. We sincerely hope that you will listen intently to the concerns of the agencies that have been managing the HOME program, LIHTC, and other related funding sources for many years. We look forward to seeing the modifications that you make to the rules prior to final implementation. If you have any questions or need clarification, please do not hesitate to contact me at Carla.pope@iowa.gov or by phone at 515-725-4921 (direct line).

Sincerely,

A handwritten signature in black ink that reads "Carla B. Pope". The signature is written in a cursive, flowing style.

Carla B. Pope
Director, Affordable Rental Production